

## MEMORANDUM

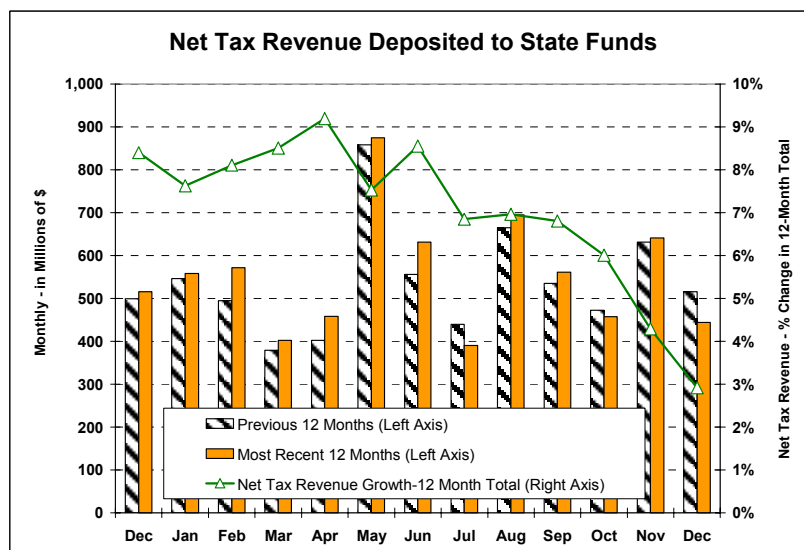
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson  
Shawn Snyder

DATE: January 27, 2009

### Twelve-month Total Net Tax Receipts Through December 31, 2008

The attached spreadsheet presents net State tax revenue deposited to State funds for the 12-month period ending December 2008 with comparisons to the previous 12 months. December 2007 to December 2008 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



### Month of December Comparison

December net tax receipts totaled \$444.3 million, a decrease of \$71.3 million (- 13.8%) compared to December 2007. The Department of Revenue reports at least \$20.0 million of the December decrease was due to delays in the deposit of personal and corporate income tax payment checks. Major taxes contributing to the month's change include:

- Individual Income Tax (negative \$37.5 million, - 15.1%) – Income tax net revenue plunged in December. The month was adversely impacted by a withholding deposit issue that positively impacted November receipts by approximately \$15.0 million and negatively

impacted December by the same amount. The month was also negatively impacted by a delay in the deposit of income tax estimate payment checks. The negative impact of the deposit delay should reverse in January. Gross income tax receipts were down \$39.3 million in December while income tax refunds were \$1.8 million lower for the month.

- Corporate Income Tax (negative \$16.2 million, - 74.7%) – Gross receipts increased \$2.9 million and refunds increased \$19.1 million. Corporate tax revenue was negatively impacted in December by delayed deposit of payments. The reverse will occur in January, boosting that month's revenue somewhat. Over the past three months, gross corporate tax receipts have increased \$23.6 million while corporate tax refunds issued over that period increased \$34.6 million.
- Sales/Use Tax (negative \$15.8 million, - 10.7%)
  - Road Use Tax Fund use tax deposits decreased \$4.5 million.
  - General Fund sales/use tax receipts increased \$28.9 million and refunds issued for the month increased \$40.2 million (net decrease of \$11.3 million). The large increases in gross receipts and in refunds are related to the recently-enacted statewide sales/use tax increase for school infrastructure coupled with the elimination of the local option sales tax for school infrastructure. This change boosts State sales/use tax receipts while increasing tax refunds by a similar amount, as the school infrastructure revenue is being removed from the State General Fund through a refund appropriation.
- Fuel Tax (negative \$9.1 million, - 18.5%) – Gross fuel tax revenue decreased \$11.1 million while refunds processed in the month decreased \$2.0 million. Fuel tax deposit timing appears very erratic and large monthly increases and decreases are common.
- Cigarette & Tobacco Taxes (positive \$2.7 million, 15.7%) – The cigarette tax was increased from \$0.36 per pack to \$1.36 per pack on March 16, 2007. The rate for other tobacco products also increased. Since reaching the one-year anniversary of increased revenue from the rate increases, cigarette and tobacco tax revenue has shown positive growth for five of eight months.
- Gambling Taxes (positive \$6.3 million, 33.9%) – Gambling tax revenue is usually deposited once per week. Due to the Thanksgiving holiday, a portion of November receipts were deposited in December and it appears a portion of January receipts were deposited the last day of December 2008.

### **Year-over-Year Comparison – Net Tax Revenue**

During the 12-month period ending December 2008, net revenue from all taxes deposited to State funds totaled \$6.684 billion, an increase of \$189.4 million (2.9%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$111.3 million, 4.0%) – The rate of Individual income tax receipt growth has decreased significantly since peaking in April 2008 at 11.8% year-over-year. The month of December 2008 was negatively impacted by a tax processing issue that should boost January 2009 receipts.
- Corporate Tax (negative \$33.6 million, - 10.0%) – Net corporate tax receipt growth over the past year is negative for the first time since August 2004. The net revenue drop-off over the past three months has been significant as refunds increased and receipts decreased.
- Sales/Use Tax (positive \$67.5 million, 3.1%) – Despite Iowa gas prices averaging \$0.38 per gallon higher over the past 12 months, slowing employment growth, declining home equity withdrawals, and reduced home construction, General Fund sales/use tax receipts continue

to show strength. Non-General Fund net sales/use tax revenue is down modestly year-over-year.

- Motor Fuel Tax (negative \$26.8 million, - 5.8%) – Net motor fuel tax revenue has been weak the past eleven months, likely the result of higher fuel prices reducing the growth in fuel demand. According to Department of Revenue taxable gallons sales reports, over the most recent 12-month period Iowa gasoline/ethanol gallons sold decreased 2.2% while diesel sales were down 1.6%, the second consecutive month showing an annual diesel decline.
- Gambling Tax (positive \$9.9 million, 3.5%) – The new Waterloo casino and changes to the Clinton casino are boosting year-over-year statewide gambling tax growth. According to Racing and Gaming Commission statistics, seven of Iowa's seventeen casino/track locations reported negative adjusted gross revenue growth over the most recent 12-month period compared to the previous period.
- Cigarette and Tobacco Tax (positive \$40.5 million, 19.1%) – Over the next four months, the year-over-year rate of revenue increase will continue to decline as the second anniversary of the tax increase approaches.
- Insurance Premium Tax (positive \$10.7 million, 11.0%) – The insurance premium tax rate was reduced over multiple years and is now fully implemented.

### **Tax Spotlight – Other Taxes**

The "Other Tax" category includes the following net tax collections:

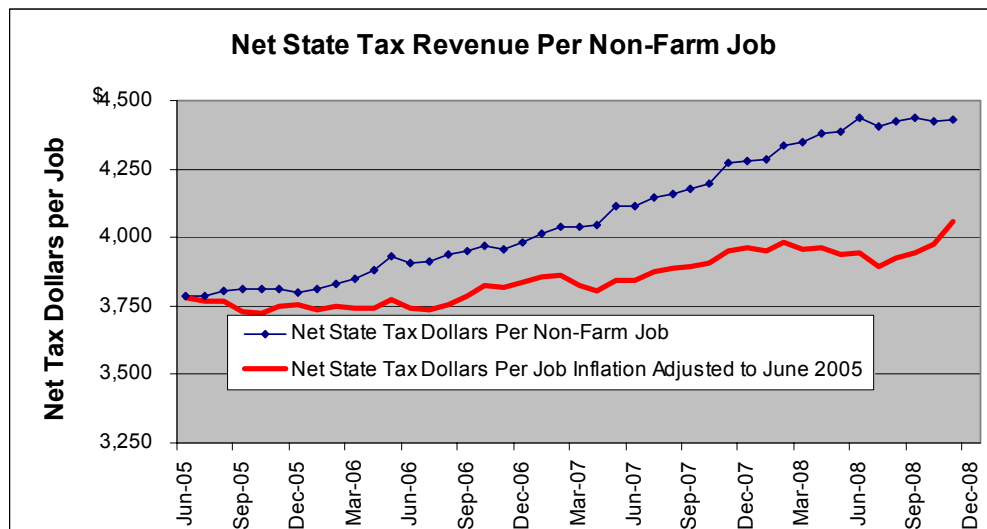
- Brucellosis Eradication Property Tax – This statewide property tax is administered under the authority of Section 165.18, Code of Iowa. The Secretary of Agriculture sets a property tax rate not to exceed \$0.3375 per \$1,000 of taxable valuation to cover expenses estimated to be paid through the Brucellosis and Tuberculosis Eradication Fund for the following fiscal year. For FY 2009, the property tax rate was \$0.0035 per \$1,000 of taxable valuation. Funds received from the tax are credited to the Brucellosis and Tuberculosis Eradication Fund. The tax raised \$450,000 over the most recent 12-month period.
- Drug Stamp Tax – This excise tax is administered by the Department of Revenue under the authority of Chapter 453B, Code of Iowa. The tax is imposed on dealers of marijuana and other controlled substances. Rates range from \$5.00 per gram of marijuana to \$750 for each unprocessed marijuana plant. Funds received from the Drug Stamp Tax are deposited to the General Fund. The tax raised \$239,000 over the most recent 12-month period.
- Utility Replacement Property Tax – This statewide property tax is administered under the authority of Section 437A.18, Code of Iowa. The tax rate is established at \$0.03 per \$1,000 of taxable utility company property valuation in the State. Funds generated from this property tax are deposited in the General Fund. The tax raised \$255,000 over the most recent 12-month period.
- Property Tax Relief Fund – Under certain circumstances, utility replacement property tax may be deposited to the Property Tax Relief Fund created in Chapter 426B, Code of Iowa for distribution to counties. During the most recent 12-month period, \$1.2 million in tax was deposited to the Fund.
- Car Rental Tax – This excise tax is administered by the Department of Revenue under the authority of Chapter 423C, Code of Iowa. The tax rate of 5.0% is imposed on the rental price of an automobile. Funds received from the car rental tax are credited to the Statutory Allocations Fund. The tax raised \$2.8 million over the most recent 12-month period.
- Tax Gap Program – The Department of Revenue transfers tax revenue on a monthly basis to fund the tax collection activities of the Tax Gap Program. The Tax Gap Program is a

Department initiative designed to improve tax compliance through utilization of technology. A total of \$3.5 million in tax revenue was deposited to the Tax Gap Program over the most recent 12-month period.

- Department of Revenue Operating Appropriation Transfers – Each month the Department of Revenue transfers tax revenue out of the State General Fund and deposits the money to the Department's operations account. The money is used in the operations budget to fund collections and streamlined sales tax activities. Although the money is withdrawn as tax receipts, the Department does not redeposit the money as tax revenue, instead depositing the money as "intrastate transfers." During the most recent 12-month period these transactions have artificially reduced reported State tax receipts by a total of \$7.8 million.

### Tax Revenue and Employment

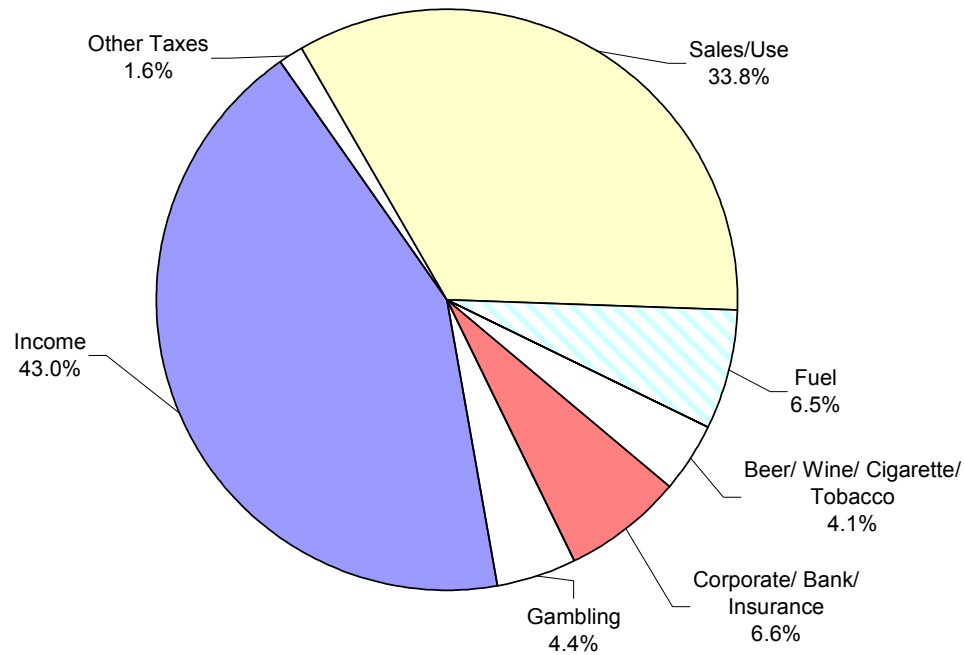
The average reading for Iowa non-farm employment over the 12 months ending November 2008 is 1,524,200, and net State tax receipts over the same 12 months totaled \$6.756 billion, or \$4,432 per non-farm job. This is \$647 (17.1%) higher than the per-job average for June 2005. Over that same time period, inflation (CPI-U) increased 9.2%. Therefore, tax revenue per job has exceeded the rate of inflation since June 2005 by roughly 2.3% per year. The following chart provides an historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



## Net State Tax Revenue - Twelve Months Ending December 2008

**Net Revenue = \$6.684 Billion**

Percentages may not add to 100% due to rounding

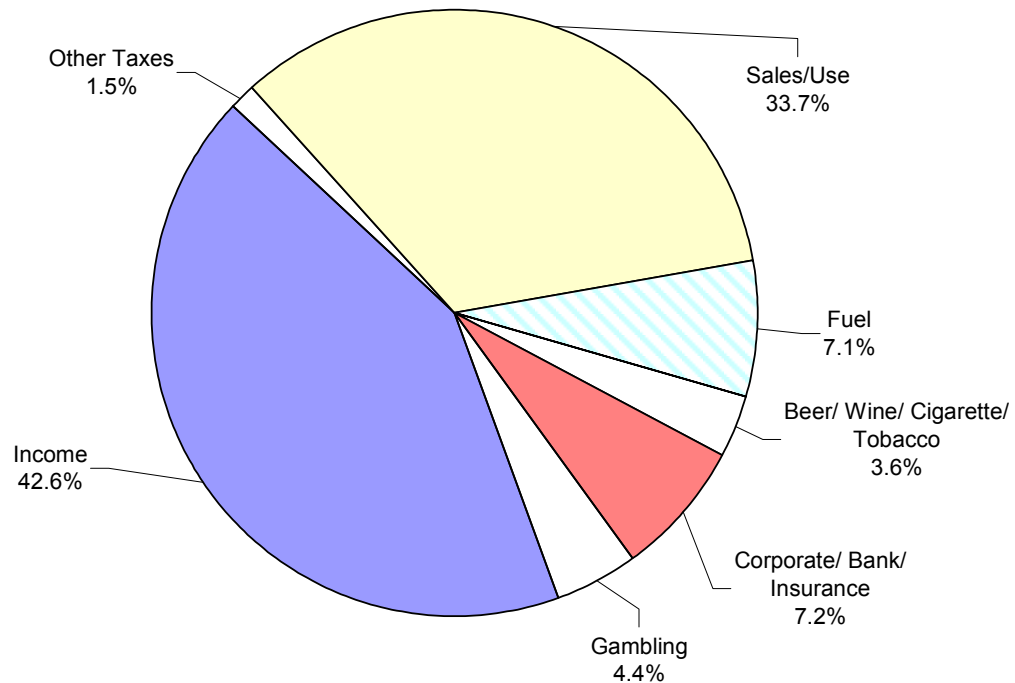


---

## Net State Tax Revenue - Twelve Months Ending December 2007

**Net Revenue = \$6.495 Billion**

Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

| <b>Net Tax by Tax Type</b>      | <b>Previous<br/>12-Month<br/>Period<br/>Total</b> | <b>Most Recent<br/>12-Month<br/>Period Total</b> | <b>12-Month<br/>\$ Change</b> | <b>12-Month<br/>% Change</b> | <b>Month of<br/>December<br/>2007</b> | <b>Month of<br/>December<br/>2008</b> | <b>December \$<br/>Change</b> | <b>December %<br/>Change</b> |
|---------------------------------|---|--|-------------------------------|------------------------------|---------------------------------------|---------------------------------------|-------------------------------|------------------------------|
| Banking                         | \$ 32.3   | \$ 32.3  | \$ 0.0                        | 0.0%                         | \$ 3.0                                | \$ 1.7                                | \$ - 1.3                      | -43.3%                       |
| Beer & Wine                     | 20.6  | 20.8   | 0.2                           | 1.0%                         | 1.7                                   | 1.7                                   | 0.0                           | 0.0%                         |
| Cigarette & Tobacco             | 211.5   | 252.0  | 40.5                          | 19.1%                        | 17.2                                  | 19.9                                  | 2.7                           | 15.7%                        |
| Corporate Income                | 334.6   | 301.0  | - 33.6                        | -10.0%                       | 21.7                                  | 5.5                                   | - 16.2                        | -74.7%                       |
| Fuel                            | 461.9   | 435.1  | - 26.8                        | -5.8%                        | 49.2                                  | 40.1                                  | - 9.1                         | -18.5%                       |
| Gambling                        | 286.4   | 296.3  | 9.9                           | 3.5%                         | 18.6                                  | 24.9                                  | 6.3                           | 33.9%                        |
| Individual Income               | 2,764.1   | 2,875.4  | 111.3                         | 4.0%                         | 248.4                                 | 210.9                                 | - 37.5                        | -15.1%                       |
| Inheritance                     | 75.0  | 82.7   | 7.7                           | 10.3%                        | 5.2                                   | 5.7                                   | 0.5                           | 9.6%                         |
| Insurance                       | 97.5  | 108.2  | 10.7                          | 11.0%                        | 0.3                                   | 0.2                                   | - 0.1                         | -33.3%                       |
| Other Taxes                     | 1.0   | 5.5  | 4.5                           | 450.0%                       | 0.9                                   | 0.5                                   | - 0.4                         | -44.4%                       |
| Real Estate Transfer            | 18.5  | 16.0   | - 2.5                         | -13.5%                       | 1.5                                   | 1.1                                   | - 0.4                         | -26.7%                       |
| Sales/Use                       | 2,191.4   | 2,258.9  | 67.5                          | 3.1%                         | 147.9                                 | 132.1                                 | - 15.8                        | -10.7%                       |
| <b>Total Net Taxes</b>          | <b>\$ 6,494.8</b>                                 | <b>\$ 6,684.2</b>                                | <b>\$ 189.4</b>               | <b>2.9%</b>                  | <b>\$ 515.6</b>                       | <b>\$ 444.3</b>                       | <b>\$ - 71.3</b>              | <b>-13.8%</b>                |
| <b>Gross Tax &amp; Refunds</b>  |   |  |                               |                              |                                       |                                       |                               |                              |
| Gross Tax                       | \$ 7,162.0  | \$ 7,612.3                                       | \$ 450.3                      | 6.3%                         | \$ 556.3                              | \$ 541.1                              | \$ - 15.2                     | -2.7%                        |
| Tax Refunds                     | \$ - 667.3  | \$ - 928.1                                       | \$ - 260.8                    | 39.1%                        | \$ - 40.6                             | \$ - 96.9                             | \$ - 56.3                     | 138.7%                       |
| <b>Net Tax Receipts by Fund</b> |   |  |                               |                              |                                       |                                       |                               |                              |
| State General Fund (GF)         | \$ 5,513.2  | \$ 5,723.0                                       | \$ 209.8                      | 3.8%                         | \$ 426.4                              | \$ 363.1                              | \$ - 63.3                     | -14.8%                       |
| Road Use Tax Fund               | \$ 720.5  | \$ 694.8   | \$ - 25.7                     | -3.6%                        | \$ 70.2                               | \$ 55.6                               | \$ - 14.6                     | -20.8%                       |
| Non-GF Gambling                 | \$ 226.0  | \$ 234.4   | \$ 8.4                        | 3.7%                         | \$ 18.4                               | \$ 24.7                               | \$ 6.3                        | 34.2%                        |
| Other State Funds               | \$ 35.0   | \$ 32.0  | \$ - 3.0                      | -8.6%                        | \$ 0.7                                | \$ 0.8                                | \$ 0.1                        | 14.3%                        |
| <b>Local Option Taxes *</b>     | <b>\$ 685.8</b>                                   | <b>\$ 747.7</b>                                  | <b>\$ 61.9</b>                | <b>9.0%</b>                  | <b>\$ 60.8</b>                        | <b>\$ 70.0</b>                        | <b>\$ 9.2</b>                 | <b>15.1%</b>                 |

\* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

## **Tax Categories Used in Table**

**Franchise (Bank) Tax:** Taxes on banks are deposited to the State General Fund. State Credit Union Tax is included on this line also.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited to the State General Fund, the Liquor Control Fund, and a small amount is deposited to a Department of Economic Development fund for wine promotion.

**Cigarette & Tobacco Tax:** Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

**Corporate Income Tax:** All Corporate Tax is deposited to the State General Fund.

**Motor Vehicle Fuel Tax:** All Motor Vehicle Fuel Tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** The first \$60.0 million of Gambling Tax revenue each fiscal year is deposited to the State General Fund. Other funds receiving deposits of Gambling Tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, The Gambler's Assistance Fund, the County Endowment Fund, the Endowment for Iowa's Health Account, and the Vision Iowa Fund.

**Individual Income Tax:** Most Individual Income Tax revenue is deposited to the State General Fund. Other destinations include the Workforce Development Fund (\$4.0 million) and Child Daycare Fund (\$2.6 million). In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

**Inheritance Tax:** All Inheritance Tax is deposited to the State General Fund.

**Insurance Premium Tax:** All Insurance Premium Tax is deposited to the State General Fund.

**Other Taxes:** Other taxes include Brucellosis Eradication Property Tax (deposited to a Department of Agriculture and Land Stewardship fund), Drug Stamp Tax (State General Fund), Utility Replacement Property Tax (State General Fund), and Car Rental Tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

**Real Estate Transfer Tax:** Real Estate Transfer Tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% to the State General Fund and 5.0% to the Shelter Assistance Fund.

**Sales/Use Tax:** General Sales/Use Tax is deposited to the State General Fund, while most Vehicle Use Tax is deposited to the Road Use Tax Fund. Beginning FY 2009, the Vehicle Use Tax was converted to a fee structure. To allow continuity of data, revenue from the fee structure is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) Sales Tax was converted to a statewide 1.0% Sales/Use Tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted as part of the net Sales/Use Tax calculation.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, Local option taxes included the SILO Tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and Hotel/Motel Tax. Starting FY 2009, the SILO Tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the Local Option Tax amount.

## **Report Database**

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.